



AUDITOR - GENERAL
SOUTH AFRICA

The Municipal Manager
Mohokare Local Municipality
P O Box 20
Zastron
9950

8 December 2015

Reference: 21379REG14/15

Dear Municipal Manager

Report of the Auditor-General on the financial statements and performance information of the Mohokare Local Municipality for the year ended 30 June 2015

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).
2. In terms of section 121(3) you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Ten (10) copies of the municipality's annual report should be submitted to my office once available.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



Narisha Poonammy
Senior Manager, Free State

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Report of the auditor-general to the Free State Legislature and the council on the Mohokare Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Mohokare Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the budget statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards or GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mhokare Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

8. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2014-15 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material losses

9. As disclosed in note 32.1 to the financial statements, material losses to the amount of R18 692 402 (2014: R15 691 377) were incurred as a result of a write-off of irrecoverable trade debtors.
10. As disclosed in note 32.1 to the financial statements, electricity distribution losses of R5 364 000 (2014: R4 284 685) and water distribution losses of R6 476 027 (2014: R3 003 164) were incurred as a result of leakages, tampering of meters, faulty meters and illegal connections.

Material impairments

11. As disclosed in note 3 to the financial statements, receivables from exchange transactions were impaired by R76 199 136 (2014: R72 297 085) and, as disclosed in note 4 to the financial statements, receivables from non-exchange transactions were impaired by R15 360 169 (2014: R13 751 538).

Irregular expenditure

12. As disclosed in note 39.3 to the financial statements, the municipality incurred irregular expenditure of R15 985 572 (2014: R937 854) during the year under review mainly due to non-compliance with supply chain management requirements. The municipality investigated the completeness of irregular expenditure for the previous five years and made adjustments accordingly. In addition, the full extent of irregular expenditure incurred during the current year is still in the process of being investigated and verified.

Going concern

13. The financial statements indicates that the municipality's current liabilities exceeded its current assets by R55 727 301 (2014: R47 243 811). In addition, as disclosed in note 51 to the financial statements, notices of motion were issued against the municipality as a result of long outstanding members' as well as council contributions to the pension and

provident funds. These conditions, along with other matters as set forth in note 51, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to meet its financial obligations as they fall due and achievement of service delivery as outlined in the annual performance plan.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas (KPA) presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected KPAs presented in the annual performance report of the municipality for the year ended 30 June 2015:

- KPA 1: Basic service delivery and infrastructure development on pages x to x
- KPA 6: Environmental management on pages x to x

18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

19. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned KPAs. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPi)*.

20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. The material findings in respect of the selected KPAs are as follows:

KPA 1: Basic service delivery and infrastructure development

Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements.

KPA 6: Environmental management

23. I did not raise any material findings on usefulness and reliability of the reported performance information for this programme.

Additional matters

24. I draw attention to the following matters:

Achievement of planned targets

25. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information for the selected KPAs reported in paragraph(s) x to xx of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for KPA 1: Basic service delivery and infrastructure development and KPA 6: Environmental management. As management subsequently corrected only some of the misstatements, I identified material findings on the reliability of the reported performance information.

Unaudited supplementary schedules

27. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

28. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

29. The performance management system and related controls were not maintained as it did not describe and represent the processes of performance measurement and how it is conducted, organised and managed, as required by sections 38 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and Municipal planning and performance management regulation 7.
30. The KPAs set by the municipality did not include indicators on percentage of households with access to basic level of water, sanitation and electricity as required by section 43(2) of the MSA and the Municipal planning and performance management regulation 10(a).

Annual financial statements, performance and annual report

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
32. The annual performance report for the year under review did not include the performance of Centlec (SOC) Ltd (electricity service provider) and a comparison with the previous financial year, as required by section 46(1)(a) and (b) of the MSA.

Audit committee

33. The audit committee did not advise the council on matters relating to internal financial control and internal audits, accounting policies, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
34. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
35. The audit committee did not review the municipality's performance management system and/or make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
36. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by municipal planning and performance management regulation 14(4)(a)(i).
37. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).
38. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.

39. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

40. The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.

Internal audit

41. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Human resource management and compensation

42. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies, as required by the Municipal regulations on minimum competency levels regulation 14(2)(b).

Procurement and contract management

43. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).

44. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).

45. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services as required by SCM regulation 28(2).

46. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).

Expenditure management

47. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

48. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

49. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

50. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

51. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Consequence management

52. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

53. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

54. The leadership did not adequately respond to the matters reported by the external auditors in the previous financial year, and did not implement consequential performance management for managers and officials that did not implement municipal policies and procedures.
55. Within the performance management and SCM departments there was a lack of sufficient skills and experience, resulting in ineffective monitoring and review.

Financial and performance management

56. Management did not in all instances monitor the completeness of source documentation in support of actual achievements reported in the annual performance report.
57. Management did not adequately respond to the recommendations of the external auditors to implement processes to monitor and report on compliance with laws and regulations. This resulted in a situation where compliance was still not actively managed.

Governance

58. The governance structures of the municipality were not sufficiently capacitated and as a result did not deliver on their mandates. Consequently, the governance structures did not take into account all the risks that affected the municipal environment and did not monitor the implementation of the recommendations of the risk management division. Furthermore, the internal audit division did not achieve its annual audit plan and the audit committee did not deliver on its legislated responsibilities.

Other reports

Investigations

59. Three investigations were conducted by an independent consulting firm on request of the municipality and the Department of the Premier. The investigations were initiated based on allegations of irregularities in procurement and payments. The investigations are currently in the reporting phase.

Auditor-General

Bloemfontein

8 December 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence